STONEBRIDGE Capital Advisors

The Stonebridge Market Commentary

September 1st, 2020

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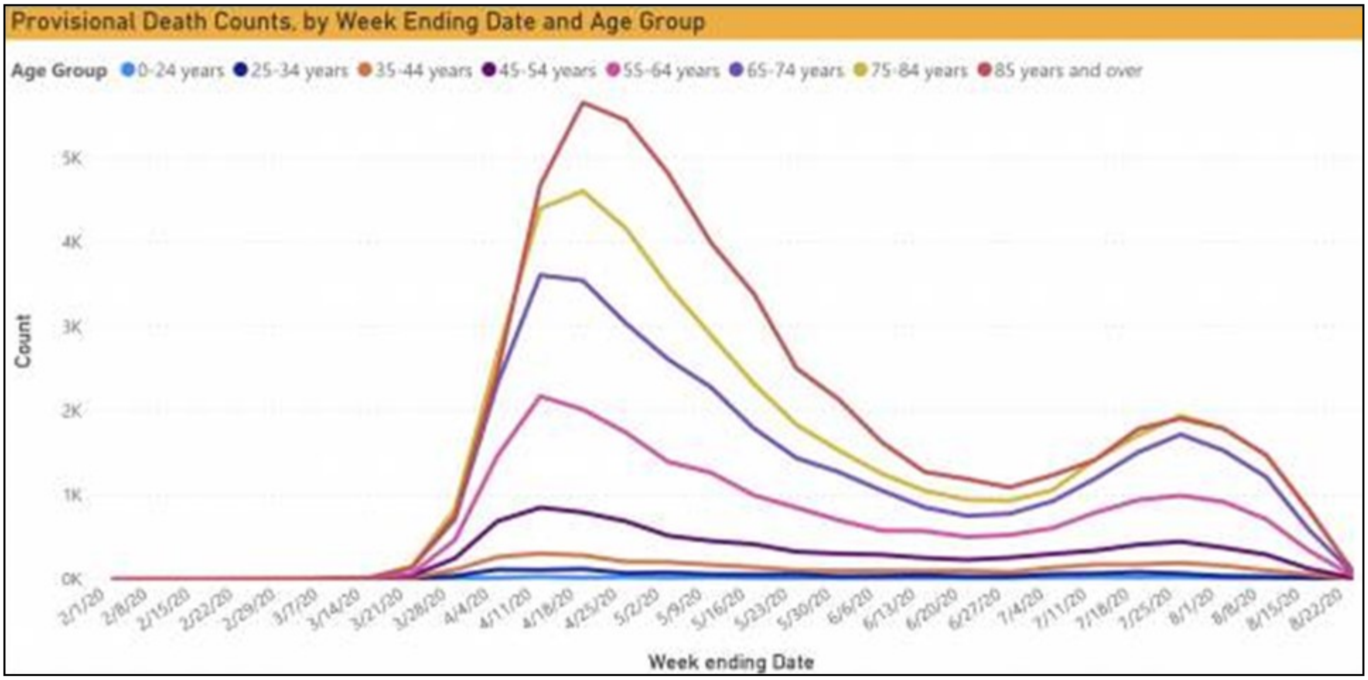
Chart 1



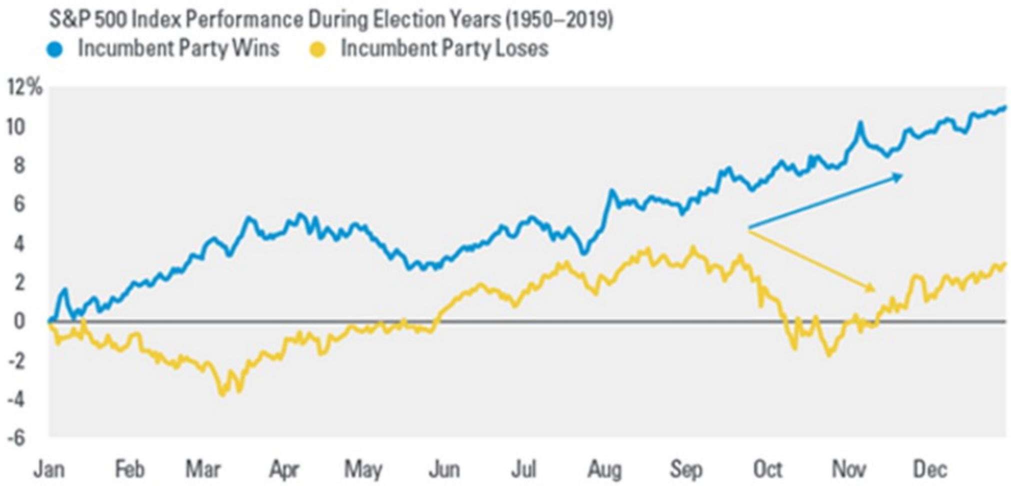
Equity Market Commentary

Another up month. Before getting into all of that, take a look at the chart above from the CDC *(Chart 1)*. You will note that the peak in COVID-19 deaths was in mid-April and that there was a further upswing in early July that peaked at the end of July. You will also note that all age groups are trending toward zero. This development is the most important predicator in getting us all back to a normal way of life. I think the investment community has been taking heart in this statistic and not the daily infection stats. Yes, infections are again rising but hospitals are no longer overwhelmed; it is the number of deaths that is most meaningful.

Economically, things are harder to read. The real estate and construction sectors are on fire. Manufacturing is coming back strong with August's ISM Manufacturing Index at 56.0 – the strongest read since November 2018. Unemployment is still way too high but is improving. The travel and entertainment sectors are a disaster. Many businesses are closing or filing for bankruptcy. Despite all these crosscurrents, the markets seem to be buying into the overall trend and not worrying about individual numbers. We certainly have moved toward "reasons to buy" from "reasons to sell" very quickly. On average, when the market falls by 30% or more it takes some 42 months to recover. This year we did it in five months.

So how did August unfold? Up and away. The S&P 500 was up 7.01%, the Dow was up 7.57%, and the NASDAQ was up 9.59%. It was not just here in the states either. The DAX, the CAC 40, the Nikkei, the Hang Seng, and Shanghai were all up for the month. Will all of this have an impact on the election? Is that partly to credit for this rise? I'm guessing so but with two months to go a lot can happen, and a lot probably will. Then there's this possible look into the future...*(Chart 2)*

1 STOCK PERFORMANCE AHEAD OF THE ELECTION COULD SIGNAL THE OUTCOME *Chart 2*



Source: LPL Research, FactSet 08/27/20

All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

The modern design of the S&P 500 Index was first launched in 1957. Performance before then incorporates the performance of its predecessor index, the S&P 90.

Fixed Income Commentary

Long-term interest rates have finally started to rise some, though still hardly to levels attractive enough to excite bond buyers. Fed influence on the shorter end of the curve has left yields largely unchanged. 2-year Treasury yields hovered between 11 and 16 basis points during the month, helping to anchor short-term rates across other credit classes, while 30-year Treasury yields rose more than 30 basis points to end the month at 1.47%. Tax-exempt rates 10-years out to 30 rose 25 to 30 basis points. US companies have been taking advantage of the ultra-low borrowing costs to refinance outstanding debt, strengthen balance sheets and build reserves to combat pandemic induced slowdowns. That goes for investment grade companies as well as high-yield or junk borrowers. The surge in borrowings has pushed outstanding corporate bond debt to an all-time high. That has left investors accepting low rates for longer and perhaps for lower credit quality than they would normally view as suitable. It also raises the risk that future debt service burdens on companies could be a drag on future corporate earnings. In the tax-exempt world, municipalities are taking advantage of the low borrowing costs, but bond issuance is still running under highs set in previous years. Again, investors are finding higher yields further out on the curve than what was available at the beginning of the month. But, while relative value ratios for municipals (tax-exempt yields/taxable Treasury yields) stand around 100% or more across the curve—typically where we would point to the attractiveness of tax-frees over taxable bonds, with Treasuries so low, absolute yields may still cause investors to balk at offering levels. Whether it is corporate bonds or tax-exempts, the strategy continues to be to favor higher credit quality and continue to find the balance between minimizing duration and maximizing yield.

Sources:
Data sourced through Bloomberg, Morningstar, StockCharts.com, LPL Research, and cdc.gov

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